

Minutes for October 27, 2010

Local Government Advisory Committee (LGAC)

Attendees

Members: Alexandra Johnson (SAO), Christy Raske (SAO), Jerry Pettit (WACO), Jim Chase (WFOA), Jim Hendrickson (WMTA), (WFOA), John Payne (WFOA), Mark Neary (WFOA), Sherry Saywer (AWC), Dean Walz (WFOA)

Additional attendees: Annette Creekpaum (Mason County PUD 3), Jan Jutte (SAO), Chuck Pfeil (SAO), Bill Verwolf (City of Lynden), Chris Johnson (Port of Anacortes)

Decisions of the State Auditor

No decisions required by the State Auditor.

Minutes

The LGAC meeting began at 9:00 am and was held in the Sunset Building, Olympia. The meeting was called to order by Christy Raske.

Approval of Minutes from October 27, 2010

Christy Raske asked if the members had reviewed the minutes and if they are ready for approval. Jim Chase moved and Jerry Pettit seconded the motion to approve the minutes. The minutes were unanimously approved.

Meeting Attendance

Christy asked if the Committee was interested in Polycom/conference calls meetings to increase attendance at the LGAC meetings. The SAO has the equipment for this in various places and attendees would have the option to attend in Olympia or travel to a much closer place. She will research this for

the next meeting and try to make this option available at least a couple places in the state.

AGO request

The SAO requested an AGO opinion on the use of interest on restricted funds. Jan Jutte has been working with the AG's Office over the past few years in their development of guidance for BARS. There have been situations when the interest now could be material to the financial statements and because there are so many RCW's involved, the matrix is not designed to answer all of the complex situations. Many of the RCW's are conflicting with each other so we need the AG's to interpret the laws regarding this issue. Jan expects to hear back from the AG's Office in November or December of this year.

Debt Limitation

Jan Jutte has also been involved with clarifying some instructions for Schedule 10, *Schedule of Debt Limitations* for local governments. There has been some confusion on which assessed value of property should be used for calculations of the limits. Because of decreasing property assessments there have been cases where entities may be not in a compliance with debt limitations. The BARS update will have revised guidelines on this issue.

Miscellaneous Issues

Jerry Pettit had a couple issues for discussion. The first was a finding that City of Ellensburg received regarding incorrect treatment of an investment. The City was advised to report debt issued by one fund and purchased by other fund as an interfund loan and Jerry does not feel that the investment transaction meets the criteria of an interfund loan. Chuck said that the SAO had consulted with GASB on the proper accounting and reporting of this transaction. After much discussion, Chuck suggested the SAO put together a group to look at this issue. Christy will be contacting Jerry, John Payne, Phill Parks and Ade from City of Ellensburg to set up the first meeting.

Jerry brought up the certification of the annual report. In many cases the county auditors certify reports even if they do not prepare them. Due to the county statute (RCW 36.22.010) which requires the auditor *make available* the annual report, there is disagreement on if that can be also interpreted as for the county auditor to *prepare it*. Since the SAO does not define who must certify reports, it will have to be left up to the counties to work out the proper interpretation of the statute.

SAO Budget

Chuck described the SAO budget situation for the remainder of this biennium. Both the SAO state and local governments' budgets has been cut. The legislature swept \$500,000 from the municipal revolving fund for state purposes. This money was from the local government audits and held for unforeseen costs so as not to increase the billing rate that has not been increased in five years. The SAO had cut staffing by not filling positions in directors, auditors and the Local Government Support team. Jerry asked for Chuck to let him and the county associations know if the Legislature was likely to do this again so they can support the SAO. Chuck also mentioned the SAO has reduced costs by combining four audit teams into two. Chuck is not certain if there will be a billing rate increase but most likely there will be one sometime in the future.

Reinventing Audit

Because of changing times, the SAO has changed the way it does audits. Some changes include for example not auditing every community college on annual basis instead audit specific areas across all community colleges in order to become more effective and efficient. There have been similar changes in the K-12 school audits. There may be changes related to the frequency of audits. Chuck will keep the local governments informed as these changes take place.

Performance Audit

Chuck gave a quick overview of the current and future performance audits. Most of the performance audits will be on state agency issues rather than local governments. Performance audits of local governments will be looking at very specific areas with a narrow scope. Currently the SAO is auditing cost allocation plans and contract change order pricing. The SAO performance audit teams are developing a long-term work plan that should be finalized in the next 3-4 months. The SAO will be communicating this with the various associations.

BARS

Alexandra Johnson reviewed major changes in upcoming BARS update.

GAAP changes

The manual was updated to reflect the new fund balance categories. This would include new account codes in GL, revenues/expenditures codes, examples of balance sheet, etc. There were minor changes in accounts

description and one new account 317.45 was added. Part 3, chapter 1 which describes fund types was updated to reflect GASBS 54. Part 3, chapter 3, section C related to petty cash was also revised. Accounting of capital transfers between funds was clarified in part 3, chapter 7. Two new interpretations (original supporting documentation and investment of fiduciary funds in an external investment pool) were added to part 3, chapter 12. The OPEB section was updated for GASBS 57.

In reporting part the biggest changes are: removal of MCAG listing (it is available on the SAO website), new notes disclosures related to GASBSs 57, 58 and 59; revision of reporting requirements for deposits. The changes in supplementary reporting include discussed previously clarification in assessed valuation of taxable property in schedule 10, revision of cities and counties required to prepare schedule 17, addition of third part to schedule 17. Alexa also discussed the planned changes to schedule 9 which were not included in the hand out.

Cash Basis changes

Additional changes made just in cash basis manual included clarifying fund numbering for special purpose districts; revising basis of accounting, updating fund definitions, splitting reporting matrix in two parts, clarifying the format of financial statements, removing schedule 17 and clarifying budgetary disclosures.

Other general changes included removal of references to *volume 1* and RCW Index (the electronic version is searchable).

GASB 54

Christy is getting questions regarding GASB 54 in the BARS update and its applicability to cash basis entities. There is some confusion that the entire statement applies to cash basis entities. The part that is applicable to all local governments, regardless of size and basis of accounting, is the fund definitions. The cash basis local governments will need to evaluate their funds, particularly special revenue funds for proper classification.

The reason behind having all local governments follow this fund reclassification for reporting purposes only (not accounting) is the requirement of the SAO to compile and produce comparative statistics. Since users of the local government finance reporting system rely on this data, it is important, for example to be able to report general funds and special revenue funds consistently. The SAO is working for some time with cash basis governments to properly use the fund categories and GASB 54

provided additional opportunities to encourage local governments to make these corrections.

BARS Redesign Workgroups

Christy Raske provided a recent article written for the WFOA newsletter on the BARS redesign project. The expenditure workgroups continue to meet. The general government and transportation expenditures have pretty much wrapped up and the public safety workgroup will begin in November. As the expenditure workgroups complete, the revenues will be started in 2011. The SAO plans to have the revision ready for the 2012 update.

Financial Reporting Deadlines

The SAO responded to a survey by the NASACT on moving up the financial reporting deadlines from 180 days to 120. The SAO supports this proposal however there are concerns about doing the required audit work in a shorter period. Other barriers include the increasing complexity of accounting, reporting, and auditing standards and the fact that they are constantly changing. In addition, auditees may be reluctant to handover statements earlier in fear of a SAS 115 finding. The SAO has some means available such as adjusting their accountability work or using estimates in auditing to help in the shortened timeframe. The SAO will continue to participate in the NASACT workgroup and will communicate its progress to the LGAC.

Meeting adjourned at 12:00 pm.